

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-4-G - ORDER NO. 2006-527
OCTOBER 11, 2006

IN RE: Piedmont Natural Gas Company – Annual) ORDER RULING ON GAS
Review of the Purchased Gas Adjustment) COSTS AND GAS
and Gas Purchasing Policies) PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing practices of Piedmont Natural Gas Company, Inc. (“PNG”). The Office of Regulatory Staff of South Carolina (“ORS”) and the South Carolina Energy Users Committee (“SCEUC”) are intervenors in the proceeding. PNG, ORS, and SCEUC, (collectively the “Parties” or individually as a “Party”), submitted a proposed settlement in the case.

The Commission conducted a formal hearing in this matter on July 19, 2006, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable G. O’Neal Hamilton, Chairman, presiding. Jeffrey M. Nelson, Esquire, and C. Lessie Hammonds, Esquire, appeared on behalf of ORS. Scott Elliot, Esquire, appeared on behalf of SCEUC. James H. Jeffries, IV, Esquire, and Kerry B. McTigue, Esquire, appeared on behalf of PNG.

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review) and Commission Order No. 2002-223 dated March 26, 2002 (filing of hedging reports).

At the hearing, upon motions made by Mr. Nelson of ORS and Mr. Jeffries on behalf of PNG, the Commission accepted into the record the pre-filed direct testimony and exhibits of witness Roy H. Barnette and pre-filed direct testimony of witness Carey M. Flynt, the pre-filed surrebuttal testimony of Roy H. Barnette, the pre-filed Settlement Agreement testimony of Carey M. Flynt, all on behalf of the ORS, and the pre-filed direct testimony and exhibits of witnesses David R. Carpenter, Keith P. Maust, and Ann H. Boggs, as well as the pre-filed rebuttal testimony of witness Ann H. Boggs, all on behalf of PNG. Mr. Barnette's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Maust's exhibits were admitted into evidence as composite Hearing Exhibit No. 4 and Ms. Boggs' exhibits were admitted into evidence as composite Hearing Exhibit No. 5. The Commission also accepted into the record a Settlement Agreement, which was filed with the Commission on July 12, 2006, and which was designated as Hearing Exhibit No. 1. ("Exhibit 3" was reserved by counsel for ORS, but not used; therefore there was no Exhibit 3 in this Docket.)

At the hearing, the Commission directed PNG to file two late-filed exhibits. Hearing Exhibit No. 6 was to consist of hedging efficiency data and a figure for reduction in rates resulting from the proposed removal of uncollectible gas costs from cost of service. Hearing Exhibit No. 7 was to be a copy of Piedmont's service regulations on uncollectible account policies. The Commission's records in this docket reflect that late-filed Hearing Exhibits Nos. 6 and 7 were filed on July 25, 2006.

All counsel present at the hearing acknowledged their respective clients' consent to the terms of the Settlement Agreement. Further, the Parties represented that they

“have each determined that their interest and the public interest would be best served by settling the above captioned case”[See Hearing Exhibit No. 1 at p.2].

PNG witnesses Carpenter, Maust, and Boggs all presented testimony at the hearing. Their testimony was consistent with and supported the testimony of the ORS witnesses, specifically in regard to the adjustments to account #253.04 and the additional matters set forth in the Settlement Agreement.

ORS witness Barnette also testified at the hearing. Mr. Barnette discussed the ORS’ audit of account #253.04 and his proposed accounting adjustments. He also discussed the proposed change in interest rate applicable to account #253.04 and the proposed change in methodology for accounting for hedging gains and losses.

ORS witness Carey M. Flynt also presented testimony at the hearing. Ms. Flynt testified that ORS conducted an extensive audit of PNG’s gas costs for the period April 1, 2005 through March 31, 2006 (“Review Period”). ORS concluded, based on the testimony of ORS Witnesses Roy H. Barnette and Carey M. Flynt, and PNG’s adoption of Mr. Barnette’s accounting adjustments, that (i) PNG’s gas purchasing policies and practices were reasonable and prudent, (ii) the Company had properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the review period; and (iii) PNG managed its hedging program during the review period in a reasonable and prudent manner consistent with Commission orders.

Ms. Flynt also testified that the Parties had agreed to adopt the accounting adjustments proposed in the direct testimony of Mr. Barnette. These adjustments decreased the end-of-period under-collection in account #253.04 by \$259,259 from Ms.

Bogg's end-of-period balance of \$(15,133,277) to Mr. Barnette's end-of-period balance of \$(14,874,018). The specific accounting adjustments proposed by Mr. Barnette, and agreed to by the parties, include the following:

- a) a cumulative reduction of \$19,929 attributable to Billed/Filed adjustments for December, 2005 and January, 2006;
- b) a cumulative increase of \$(27,405) attributable to various Proration Adjustments for April, and September through November, 2005 to correct the number of dekatherms used in this adjustment during these months;
- c) a reduction of \$292,851 attributable to a true-up of interest on gas cost account #253.04;
- d) an increase of \$(18,913) attributable to negotiated loss adjustments;
and
- e) an increase of \$(7,203) attributable to an adjustment in secondary market revenues.

After taking these adjustments into effect, the end-of-period balance in account #253.04, not including the effects of hedging activities, is an under-collection of \$(14,874,018).

Ms. Flynt also explained the terms of the Settlement Agreement and testified that the Settlement Agreement was in the public interest. (A copy of the Settlement Agreement is attached hereto as Order Exhibit No. 1 and is hereby incorporated into and made part of this Order). She also testified to several other matters raised in the Parties'

testimony and included in the Settlement Agreement. These included agreements to propose that:

- a) effective November 1, 2006, the commodity cost of gas attributable to uncollected accounts would be removed from base rates and recorded in and collected through account #253.04 in order to ensure the recovery of actual uncollectible expenses rather than estimates of those expenses. The balance of the uncollectible accounts expensed, including the company's margins, would be recovered through their Rate Stabilization Act ("RSA") filing;
- b) PNG's PGA should be modified to reflect hedging activity results in the deferred account #253.04. This modification would be accomplished by monthly transfer of hedging gain or loss to the deferred account;
- c) effective November 1, 2006, the interest rate applicable to balances in account #253.04 would be fixed at 7.0%; and
- d) The Review Period liquefied natural gas ("LNG") inventory adjustments for the Charlotte LNG facility and the Four Oaks LNG facility addressed in ORS testimony should be accepted for the purposes of calculating PNG's end-of-period LNG inventory levels and that PNG will ensure the timely and accurate reconciliation of physical LNG inventory levels with the inventory levels of LNG recorded in PNG's gas cost accounting system.

No other witnesses presented testimony in this proceeding.

After careful review and consideration of the evidence of record, the Settlement Agreement, and the representations of counsel, the Commission concludes as a matter of law that approval of the Settlement Agreement is in the public interest and that based on the testimony of the hearing witnesses, and the adoption of the accounting adjustments proposed by Mr. Barnette, (i) PNG's gas purchasing policies and practices during the review period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the review period, and (iii) PNG managed its hedging program during the review period in a reasonable and prudent manner consistent with Commission Orders. The Commission further concludes that the proposed changes to the manner in which uncollectible gas costs are recorded and recovered by PNG, the manner in which hedging gains and losses are accounted for, and the interest rate applicable to PNG's gas cost account #253.04 are just and reasonable and in the public interest and should be approved.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony and exhibits of PNG witnesses David R. Carpenter, Keith P. Maust and Ann H. Boggs and the pre-filed rebuttal testimony of PNG witness Ann H. Boggs are accepted into the record without objection.
2. The pre-filed direct testimony and exhibits of ORS witness Roy H. Barnette and direct testimony of ORS witness Carey M. Flynt are accepted into the

record without objection as are the pre-filed surrebuttal testimony of Roy. H. Barnette and the Settlement Testimony of Carey M. Flynt.

3. PNG's gas purchasing policies and practices during the Review period were reasonable and prudent.

4. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the review period.

5. PNG managed its hedging program during the review period in a reasonable and prudent manner consistent with Commission Orders.

6. The accounting adjustments proposed by ORS witness Roy H. Barnette are adopted as follows:

PNG's deferred cost gas account #253.04 is adjusted from an under-collection of \$(15,133,277) to the adjusted balance of an under-collection of \$(14,874,018):

- a) a cumulative reduction of \$19,929 attributable to Billed/Filed adjustments for December, 2005 and January, 2006;
 - b) a cumulative increase of \$(27,405) attributable to various Proration Adjustments for April, and September through November, 2005 to correct the number of dekatherms used in this adjustment during these months;
 - c) a reduction of \$292,851 attributable to a true-up of interest on gas cost account #253.04;
 - d) an increase of \$(18,913) attributable to negotiated loss adjustments;
- and

e) an increase of \$(7,203) attributable to an adjustment in secondary market revenues.

7. PNG is authorized to remove \$867,769 in uncollectible gas cost expense from its cost of service filed in its Rate Stabilization Act filing and to record its actual uncollectible gas costs expense in its account #253.04 on an ongoing basis in the manner proposed by PNG witness Carpenter;

8. Effective November 1, 2006, PNG is authorized to transfer the balance of its cumulative hedging gains or losses to account #253.04 on a monthly basis in the manner proposed by ORS witness Barnette;

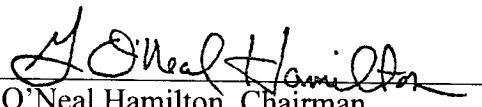
9. Effective November 1, 2006, the interest rate applicable to balances in PNG's account #253.04 shall be fixed at 7.0%;

10. PNG is to ensure timely and accurate reconciliation of physical LNG inventory levels with LNG inventory levels recorded in PNG's gas cost accounting system on a going forward basis.

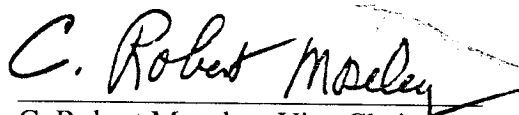
11. The Settlement Agreement attached hereto as Order Exhibit No. 1 is accepted into the record without objection and is incorporated into and made part of this Order by reference. Further the Settlement Agreement is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


G. O'Neal Hamilton, Chairman

ATTEST:


C. Robert Moseley, Vice Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2006-4-G

IN RE:

Piedmont Natural Gas)	
Company's Annual Review of)	SETTLEMENT AGREEMENT
Purchased Gas Adjustment and)	
Gas Purchasing Policies.)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by South Carolina Public Service Commission ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002 in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2005 through March 31, 2006 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interest and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of David R. Carpenter, direct testimony and exhibits of PNG witnesses Keith P. Maust and Ann H. Boggs, and the pre-filed rebuttal testimony of PNG witness Ann H. Boggs, without objection, change, amendment, or cross-examination by the Parties. PNG will present its witnesses at the hearing.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony, exhibits and pre-filed surrebuttal of ORS witnesses Roy H. Barnette and Carey Flynt, without objection, change, amendment, or cross-examination by the Parties. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and with the adoption of the accounting adjustments proposed by Roy H. Barnette described herein, the hearing record then before the Commission will conclusively demonstrate the following: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent, (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period, and (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

4. The Parties agree to adopt the following accounting adjustments set forth in the testimony of Roy H. Barnette for PNG's deferred cost of gas account #253.04 so as to adjust the

account balance shown in PNG witness Ann H. Boggs's testimony from an under-collection of (\$15,133,277) to the adjusted balance shown in ORS witness Roy H Barnette's testimony of an under-collection of (\$14,874,018):

- a) a reduction to PNG's under-collection of \$7,876 to correct the off-system sales used in the December 2005 Billed/Filed calculation;
- b) a reduction to PNG's under-collection of \$12,053 to correct the off-system sales used in the January 2006 Billed/Filed calculations;
- c) an addition to PNG's under-collection of \$10,123 to correct the dekatherms used in the April 2005 Proration Adjustment calculation;
- d) an addition to PNG's under-collection of \$68,005 to correct the dekatherms used in the September 2005 Proration Adjustment calculation;
- e) an addition to PNG's under-collection of \$6,519 to correct the dekatherms used in the October 2005 Proration Adjustment calculation;
- f) a reduction to PNG's under-collection of \$57,242 to correct the dekatherms used in the November 2005 Proration Adjustment calculation;
- g) an addition to PNG's under-collection of \$18,913 to correct the Negotiated Loss calculation for the month of April 2005;
- h) an addition to PNG's under-collection of \$7,203 to correct the dekatherms used in the January 2006 Secondary Market Sharing Adjustment calculation.

5. The Parties agree to the method proposed by PNG by which it calculates, accounts for and recovers uncollectible gas costs effective November 1, 2006. PNG proposes the actual commodity cost of gas associated with uncollectible accounts will become a component of the deferred account #253.04. The balance of the uncollectible accounts expensed, including the

company's margin, will be recovered through their Rate Stabilization Act ("RSA") filing. The requested change will allow PNG to recover actual expenses rather than estimates.

6. The Parties agree that PNG's PGA should be modified to reflect hedging activity results in the deferred account #253.04. This modification will be accomplished by monthly transfer of hedging gain or loss to the deferred account.

7. The Parties agree with ORS's recommendation that the interest rate on PNG's deferred account #253.04 be fixed at 7% effective November 1, 2006.

8. The Parties agree that the Review Period liquefied natural gas ("LNG") inventory adjustments for the Charlotte LNG facility and the Four Oaks LNG facility addressed in ORS testimony shall be accepted for purposes of calculating PNG's end-of-period LNG inventory levels and that PNG shall ensure the timely and accurate reconciliation of physical LNG inventory levels with the inventory levels of LNG recorded in PNG's gas cost accounting system.

9. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

10. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

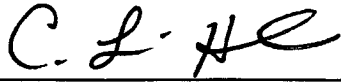
11. This agreement shall be interpreted according to South Carolina law.

12. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES FOLLOW]

WE AGREE:

Representing and binding the Office of Regulatory Staff



C. Lessie Hammonds, Esquire

Jeffrey M. Nelson, Esquire

Office of Regulatory Staff

1441 Main Street, Suite 300

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Phone: (803) 737-0800

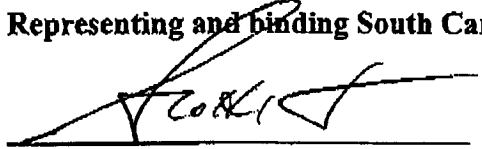
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SCEUC has not independently reviewed (i) PNG's gas purchasing policies and practices, (ii) whether PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period and (iii) whether PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders. SCEUC's review of these matters is limited only to the pre-filed testimony of PNG's and ORS's witnesses. Although SCEUC has not conducted an independent investigation into the prudence of PNG's gas purchasing policies and practices, SCEUC is aware that ORS has conducted such an investigation, and by executing this Settlement Agreement, SCEUC hereby supports the positions and conclusions of ORS as set forth in the pre-filed testimony of ORS witnesses Roy H. Barnette and Carey Flynt.

Representing and binding South Carolina Energy Users Committee



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WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



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